

DEPARTMENT OF BUSINESS OVERSIGHT
1515 K STREET, SUITE 200
SACRAMENTO, CA 95814

SECOND NOTICE OF MODIFICATIONS TO TEXT OF
PROPOSED REGULATION

Pursuant to the requirements of Government Code section 11346.8, subdivision (c), and Section 44 of Title 1 of the California Code of Regulations, the Department of Business Oversight is providing notice of proposed modifications to Section 1608 in Article 14, of Subchapter 6 of Title 10, published in the California Regulatory Notice Register 2014, No. 2-Z.

On July 1, 2013, the Department of Corporations and the Department of Financial Institutions merged to form the Department of Business Oversight. The Department of Business Oversight (Department) has all of the powers, authority, enforcement, jurisdiction, laws and regulations that were under the former Department of Corporations and former Department of Financial Institutions.

The Department licenses and regulates businesses engaged in financial transactions that were under the former Department of Corporations, such as mortgage loan originators, finance lenders, securities broker-dealers, investment advisers and securities depositories.

PROCEDURAL HISTORY OF PROPOSED REGULATION

The proposed regulation as originally noticed to the public on January 10, 2014, would adopt rules to implement the Pilot Program for Increased Access to Responsible Small Dollar Loans, as enacted by Senate Bill 318 (Chapter 467, Statutes of 2013).

In response to comments received on the proposed regulation, the Department of Business Oversight proposed modifications to Sections 1601, 1603 and 1608 in the notice of modifications dated April 2, 2014. Among other things, the Department had proposed to expand the content of credit education programs and seminars in Section 1608 in response to a comment from an interested party that the current content is too narrow and that expanding the content would encourage lenders to offer high-quality financial information to borrowers.

The modifications to Section 1608 proposed in this notice are in response to a comment received from a licensee directly affected by the proposed regulation. Additions to the text are shown by double underlining and deletions are shown by double strike-out.

COMMENTS ON PROPOSED CHANGE

If you have any comments regarding the proposed changes, the Department will accept written comments between May 8, 2014 and May 23, 2014. All written comments must be submitted to the Department no later than 5:00 p.m. on May 23, 2014, and addressed to:

Karen Fong, Rulemaking Coordinator
Department of Business Oversight
Legal Division - Policy Unit
1515 K Street, Suite 200
Sacramento, California 95814
(916) 322-3553
Regulations@dbo.ca.gov

All written comments received by May 23, 2014, which pertain to the indicated changes will be reviewed and responded to by the Department staff as part of the compilation of the rulemaking file. Please limit your comments to the modifications to the text. If the final day for the acceptance of comments is a Saturday, Sunday or state holiday, the comment period will close at 5 p.m. on the next business day.

REASONS FOR CHANGE

The Department is proposing material changes to Section 1608 (approval of credit education programs and seminars by the Commissioner). The material changes would delete the credit education content requirements that the Department had proposed to add in paragraphs (5) and (6) of Section 1608, subdivision (b). Specifically, the Department proposes to remove the requirement that the content of credit education programs and seminars include information on how to maintain a basic bank account, manage a household budget, and set financial goals and develop a plan for achievement, including strategies for saving; and legal reasons for denying a loan and how to report any potential loan discrimination or illegal activities to government agencies.

The changes were made in response to a comment from a licensee directly affected by the proposed regulation. Specifically, the commenter requested that the new credit education content be deleted in its entirety because the information is outside the boundaries of credit education, falls outside of the commenter's area of expert knowledge as a lender, doubles the length of the content, and duplicates information concerning loan denial and discrimination already required by state and federal statutes.

The Department accommodated the comment by removing the specified content from the proposed regulation. The Department has concerns that requiring credit education programs and seminars to include the content may be burdensome to lenders, particularly those that offer credit education programs in-house and that lack sufficient expertise on budgeting, savings and financial goal setting. Moreover, requiring the content in the programs and seminars may have the unintended consequence of requiring lenders to outsource the credit education, thereby reducing regulatory flexibility.

AVAILABILITY OF RULEMAKING FILE

The initial statement of reasons for the proposed action containing all the information upon which the proposal is based is available at the Department's

website www.dbo.ca.gov. To access the document from the Department's Web site, click on the "Laws & Regs" tab at the top of the home page, click on the "Rulemaking" link under "Division of Corporations", click on the "California Finance Lenders Law" link, click on "PRO 15/13" under "Proposed Regulations", and then click on "Initial Statement of Reasons for Amendments to Regulations". The initial statement of reasons is also available by requesting Document PRO 15/13 – C from the contact person designated above.

The rulemaking file is available for public inspection and copying throughout the rulemaking process at the Department of Business Oversight, Legal Division - Policy Unit, 1515 K Street, Suite 200, Sacramento, California 95814.

The proposed changes to the Commissioner's rules in the text accompanying this notice are not yet effective, and will not be effective until approved by the Office of Administrative Law and filed with the Secretary of State in accordance with Government Code Section 11349.3.

Dated: May 7, 2014
Sacramento, California